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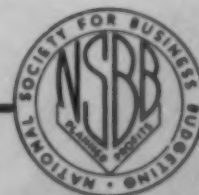
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BUSINESS

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BUDGET FOLLOW-UP . . A few editorial comments

IN THIS ISSUE

In the article starting on Page 4, Wesley T. Head, Deputy Budget Officer, Ordnance Ammunition Command, Joliet, Illinois, and a member of the Joliet-Kankakee Chapter, outlines the procedures used in the Department of Defense to introduce an industrial type of control to its operation. It is reassuring to learn that there have been changes in recent years and that they have been in the direction of improved control.

Mr. Head is a veteran of World Wars I and II and is a retired Lieutenant Colonel. He has had a total of 26 years government service — military and civilian. As Program and Budget Coordinator and Budget Officer, he has worked in the development and transition of Army budgeting from the old "Multiple Appropriations System" to the new "Integrated Command Management System."

* * *

The article by Dr. H. H. Klopstock, commencing on Page 9, is based on a talk given before the New York Chapter in November, 1960. While return on investment studies are not unusual these days, Dr. Klopstock's approach to the subject is quite unique and shows evidence of his academic background. Dr. Klopstock studied economics and law at the Universities of Cologne, Paris and Prague. From 1935 to 1950, he was connected with large European chemical companies, concerning himself principally with economic studies. He has been with American Cyanamid as budget accountant since 1954. He is a member of the New York Chapter and his work has previously appeared in BUSINESS BUDGETING.

* * *

The article by Frank B. Gardner and K. H. Schaffir (Page 18) was made available through the good offices of Harry P. Kelley, Past National President of NSBB and last year's winner of the Hutchenson Award for the best article in BUSINESS BUDGETING. It was good to hear from Mr. Kelley as well as to receive this interesting article on budgeting in a seasonal industry.

* * *

The brief comments on business fluctuations by Idrian Resnick is the latest in a series of replies to Tom Dudick's articles in the June, 1960 issue, entitled "Are We on the Threshold of Another Depression." Mr. Resnick is a graduate student

in economics at Boston University. One of the interesting sidelights about this reply is that Mr. Resnick received the suggestion to reply to Mr. Dudick from Dean Kelly of the Boston University School of Business Administration. BUSINESS BUDGETING is made available by the Society to the faculty and students of many of our universities and colleges. It is encouraging to learn that both the staff and the students are using our publication.

* * *

DALLAS CONFERENCE

By now, you have all received the very attractive brochure sent out by the Dallas Chapter inviting you to attend the Annual Conference on May 25 and 26. In turning through the pages of the brochure it becomes obvious that Bill Campbell and his co-workers have spared no effort to provide us with an interesting and exciting program. There seems to be something for everyone. Among the subjects covered by the speakers will be "Planning International Operations," "Planning in a Growth Industry" and "Profit Planning Through Direct Costing." The business game, scheduled for Friday afternoon, should be most interesting — especially for those of you who have not before had an opportunity to participate in this sort of activity. The social activities are equally exciting. A real Western Ranch Party is planned for all registrants on Thursday evening. The Ladies Program will provide, among other things, a never-to-be-forgotten treat — a style show at Neiman-Marcus!

* * *

Every Conference seems to take on an identifiable character and personality of its own. And one facet of this inanimate identity is that at each conference there is one subject that, sooner or later, gets into every conversation. In Minneapolis it was "flexible budgets." In Cincinnati it was "cost reduction." Of course, this phenomenon does not just happen. It is the result of current business conditions or some currently popular idea that has caught the fancy of a large segment of the population. Our members, being a reasonably typical cross section of the business community reflect in their conversation the subject that is currently in vogue. Never-the-less, it is interesting to speculate on what subject will be most discussed in the corridors this year in Dallas. If you have not already done so, send your conference reservation in today. See you in Dallas!



Budgeting and Fund Administration Within the Department of Defense

*By: Wesley T. Head
Deputy Budget Officer
Ordnance Ammunition Command
Joliet, Illinois*

Budgeting for the many and various activities of our Federal Government is a monumental task. Progress in improving government budgeting has been significant in recent years. Mr. Head here outlines the present status of budgeting in the Defense Department and points out some of the milestones that have brought us to this point.

INTRODUCTION

The problem of efficient budgeting and funding within Federal Government has plagued us since the adoption of the constitution. As Governmental functions grew and expanded, so did the basic problem expand. In the beginning, the scope of Federal operations was small enough to be satisfactorily controlled by one or two individuals, with it must be assumed, the approval of the small legislative group.

Now that our Government and its' various branches has developed into colossal proportions, with many of the branches dwarfing the greatest of our Industrial Giants, control by the rule of thumb or by the same means as serves Commercial Enterprise is not possible or practicable.

Actions Taken To Improve Budgeting and Fund Administration

The budgeting and accounting system used by branches of the Federal Government is of necessity established within the framework and in compliance with the laws passed by the Congress. Legal limitations and specific directives permeate all aspects of government financial man-

agement. These limitations cover not only the purpose intended for a fund entity, but the amounts within a fund which may be used for specified purposes, as well as the organizational structure for financial management and the general structure and format to be used in the accounting system. There are also legal limitations in the language of each individual appropriation bill.

In recent years, as a result of the Hoover Commissions various findings and recommendations, Congressional enactments have placed heavy emphasis on accrual accounting, cost accounting and cost based budgets. The laws passed by Congress to improve Federal Government Budgeting and Accounting are based largely on material contained in the following listed publications which generally are available in Public Libraries.

- a. The Hoover Commission Report. (First Hoover Commission, McGraw Hill).
- b. The Hoover Report (Second Hoover Commission — McNeil and Metz).
- c. Citizens Committee for the Hoover Report, 777, 14th Street, N. W., Washington, D. C. (Free)

d. Task Force Report on Hoover Commission Reports (Govt. Printing Office, Washington 25, D C. about 35 cents each report)

e. Government Budgeting by Jessie Burkhard. (John Wiley and Sons, Inc., New York).

The basic law is the Budgeting and Accounting Act of 1921 and its' Amendments. Public Law No. 784, 81st Congress, Public Laws No. 798 and No. 863, 84th Congress, 2nd session, are major amendments to the basic law. These laws are intended to simplify Accounting, facilitate the payment of obligations, and improve governmental Budgeting and Accounting procedures.

The net result of these laws, which were passed by Congress with a view of implementing recommendations of the Hoover Commission, and at the same time retaining strict control by the Congress, has not attained the Ideals of many individuals who apparently often seek to criticize "the government," without bringing forth a workable solution to the less than desirable condition which they criticize. Actual improvements realized so far are many. Greater benefits will accrue as the "improved system" becomes better understood.

Mission Workload Planners Must Consider Resources

Implementing an entirely new concept, new to many high level Government personnel who are accustomed to planning on a very broad summary level, at the same time leaving the budget and fund management to "someone else," entails a stupendous educational effort. The mission workload manager must now concern himself with the costs and financial resources necessary to accomplish the things which he plans to do. No longer can he plan the work and assume that the necessary budget, funds and other resources will automatically be made available. He must work closely with the Budget Manager, often revising his work plan to live within the amount of funds and the budget which can be provided within Congressional appropriations.

The mission program manager is now required to examine his workload proposal in much the same light as does the Production Manager or the Plant Manager in commercial industry.

Budget Planning and Fund Administration

Budget planning and budget execution are prime requisites to effective fund administration.

Budget execution and the necessary obligational authority (funds) to finance a mission workload are normally identified with a specific time period, usually a calendar or fiscal year. Fund administration requires adequate recording, accounting, and reporting. Selected control elements must be identified and segregated to facilitate overall administrative control.

It is basic that a Budget, as such, is a financial plan which exists only as an adjunct to a planned work program to accomplish an assigned mission workload. Execution of a budget requires judicious administration of the financial resources available to bear the expense of accomplishing that mission workload. This administrative process becomes involved with funds and costs. Funds and costs are not synonymous. Funds are the obligation authority required to finance payrolls, supplies, and materials ordered, without reference to the time of use of these physical resources. Costs are the dollar value of labor, supplies, materials, equipment, and services used within a specified time period. When applied to elements of the mission workload, these costs become the cost-value of the end item delivered, be it a manufactured or produced article, or a service.

Accounting Records As Source Of Subsidiary Data

Many of the various elements necessary for this budget administrative process are accumulated in the records of the finance and accounting office. Other elements come from different sources, production schedules, progress reports, etc. Accounting procedures which will permit the ready conversion of costs as such, to obligations, are the basis of good budget administration. Moreover these obligations must be relatable to the fiscal year in which they were incurred, as well as to the mission workload.

It is imperative that every applicable element of cost be assessed against the end product or service delivered within a work program. Commercially these total costs must be kept below the potential selling price, otherwise the enterprise will become bankrupt and be forced out of existence. Within Government, costs must be held to the lowest possible minimum in order that the taxpaying public and the Congress will be satisfied that the cost of Government, which includes National Security and Defense, as well as many other public services, are not unreasonable or exorbitant.

Similarities Between Government And Commercial Enterprises

Government and Private Commercial business enterprises are not as dissimilar as many people believe. The similarity becomes more apparent when we examine the basic cause or incentive which makes an enterprise necessary or desirable. In Government we have "guidance" in the form of an outline of the work mission planned at high level, together with a high level estimated cost of the planned workload. Commercially the same type of guidance is provided, usually in the form of a sales plan or "Budget." This sales budget indicates the volume, type and proposed selling price of the work planned for accomplishment in the target budget year. As stated previously, this sales budget includes the desired margin of profit. Governmental guidance, without a profit motive is aimed at what is known commercially as the "break-even point." Loss cannot be tolerated, neither is a profit desired. This requirement makes the accuracy of Government budget plans far more critical than a Commercial Business Budget.

Commercially a profit is desired. If the profit is lower than that forecasted, but still gives a return over cost, the operation may be considered successful; however, if the operation approaches or goes below the break-even point, the firm is forced out of business unless additional capital is made available to cover the deficit. Within Government, the "target" of performance is the break-even point. The Bureau of the Budget and Congress are equally as critical of an operation which develops a gain or profit, as they are over a loss. It is intended that the taxpayers money cover only those necessary expenses or costs which will permit delivery of items or services required to support the operation of the Federal Government. Law forbids incurring obligations in excess of the amount of funds made available by Congressional action. It follows that in Government operations there is no method provided to hold the operation in a suspended state of bankruptcy while additional working capital is secured. Federal law makes it mandatory that operations be halted before an actual fund deficiency develops. Vital mission programs are continued by means of continuing close analysis of the operating trend. Any impending deficiency becomes known far enough in advance to permit either an orderly closeout within the amount of budget and funds available, or securing additional budget and funds before an actual deficiency in financial resources develops.

Accurate Costing Of Product Not Gauge Of Fund Administration

Accurate application of total costs against the end product or service is in itself not the gauge for good Budget and Fund administration. It is most necessary that all of the various sub-elements of this total cost be segregated and treated as separate entities. For adequate cost control purposes, major sub-elements must be recorded, analyzed and controlled. Minor sub-elements which have little effect on total costs may be combined, once they become identified.

Major elements of cost, each of which must be identified with obligations by time period, include but are not limited to labor costs, supplies, materials, equipment, contractual and other services, component parts etc. Obligation authority to defray the expenses of these various costs is identified with the Budget or current fiscal year. It follows that the first step in accomplishing a gross mission workload is to secure the basic or component elements required before the desired end product can be assembled and delivered. The distribution of these sub-element costs to arrive at the "selling price" of various end product items is a critical step in budget and fund administration. From the above it can readily be seen that various work program managers, each of whom is vitally interested in his own "work package," can, and often does convey erroneous impressions of the budget value necessary to support his work program. Using the common denominator, dollar value, the statement is made that funds are required to cover the full value of their program delivery cost.

Analysis of the various elements of the total cost may disclose that, for example 60% of the necessary component value may be used from inventory. In this case 40% of the dollar value of the "cost of deliveries" is all the obligational authority (funds) that is required to be available during the current year. In the event that part of the gross program value, (total deliveries over a period of years) requires funding for component parts procurement during the current year, the cost of procuring those component parts must be funded by current year obligational authority, however all of these costs are not necessarily a part of the "cost of deliveries" during the current year.

Fallacy And Pitfalls Of Assuming A Simple Mathematical Solution

From the above it can be seen that budgeting and fund administration is a complex operation which does not lend itself to a simple addition of the value of mission orders for deliveries during the current year as the method for determining the total obligational authority required. The gross value of deliveries must be analyzed. The value of component parts and materials on hand and already paid for must be analyzed. The value of materials and component inventory which must be purchased during the current year must also be considered. The overhead burden, operation and maintenance of facilities, and other overhead expense must be considered. All of the burden overhead costs must be separately computed and then spread on a "fair share of burden" basis.

Stated in another way, budgeting and funding for a given year must be provided to cover the cost of inventory parts, supplies, materials, and equipment to be procured during the budget year as well as the overhead burden costs which must be funded in the current year. Representative costs are pay of personnel, travel, communications, transportation etc. All the various sub-elements, the cost of which will be prorated proportionately to mission program product end items, must be computed, budgeted, and obligation authority secured to pay the cost of their procurement.

The next step in fund administration is the spreading or prorating of these accumulated costs to the various mission work program projects. The value of inventory used for each end item delivered, the value of labor, and services rendered for the benefit of the delivered end product, and the fair share of burden must be assessed as part of the cost of mission program deliveries. As pointed out above, these costs are accumulated in the records of the finance and accounting office. Finance and accounting records do not reflect the value of inventory used in the production of various end items. Finance and accounting records do not reflect the spread of overhead burden.

Inadequate Budgeting Caused By Reliance On Summary Records

Many program mission enterprises have been placed in jeopardy or have failed by reason of oversight or lack of knowledge regarding the various elements of cost and their application to determining a total cost of delivery estimate. Highly trained accountants, specializing in cost

accounting become imbued with the importance of cost accounting operations as an end in itself, and in the summary total cost as applied to the cost value of a delivered end item of production. Each in his field is not concerned with the subsidiary elements which make up that total cost, nor is he concerned with the method by which the subsidiary element amounts were computed.

Efficient fund administration, as an adjunct to realistic budgeting operation and budget control to finance mission work programs requires accurate and complete identification of the elements which make up the total cost. Top Management is very much concerned with identification of and control of many of the sub-elements of product costs. Analysis and explanation of the amounts obligated and expended for travel of personnel, transportation of things, communication services, overhead operating supplies, pay of personnel, selected items of post camp and station (installation) operating expense etc., are consistently requested.

Budgeting Not An SOP Formula Operation

Budgeting and fund administration, as can be deduced from the foregoing, notwithstanding the erroneous concept adhered to by many who have had little experience with operating budget formulation and administration, is not a simple following of a set of rules or a simple SOP. Each of the subsidiary elements have to be treated separately. The production manager determines his production target and estimates the value of his gross program according to his long range plan, usually for a five year span of time. He determines the lead time required for various components and estimates the cost of procuring those components. Then he establishes his time phased delivery target, including that for the current year. The Budget Officer, through coordination with the Production Manager determines the amount of obligation authority (funds) required for the target year of operation. A firm determination of the resources on hand, component inventory etc., is very important. Net obligation authority for a mission work program can only be determined when assets on hand are known. Analysis of these resources is a major budgeting problem. A realistic budget, by identifying and programming use of resources on hand can often assure full performance of a mission workload with new obligation authority far below the value of product delivery.

Budgeting for the expense of installation operation is another very important element which is

often not given the attention which it requires. The mission programmer often fails in his preliminary planning, to consider the cost of installation operations. This overhead burden was formerly separately funded as an administrative overhead, and not assessed against mission production or service programs. Under modern management systems it is recognized that these Operation and Maintenance of Facilities expenses are properly chargeable on a prorata share basis to all mission programs. The detail of overhead expense accounts, such as pay of personnel, contractual services, light, heat, power, communication services, local transportation etc., are all provided for in separate studies. After all the elements of burden expenses are identified and summarized, they are assessed against, and become a part of every major mission cost.

Final Budget Does Not Resemble Cost Of Product Summary

The final budget for a given years' operation bears little resemblance to the summarization of "cost of product" deliveries for the same year. The intricate details of analysis and final cost estimates of the various sub-elements which contribute to the value of the final budget are retained in the various offices where they were developed. Simple addition or "work back" mathematical examination of the budget to all these elements is not possible since the breakdown and distribution of many sub-element costs to sub-summaries, which are further broken out and distributed to major mission programs, creates an intricate pattern. Budget and fund administration during the year of operation requires continuing analysis, budget and fund adjustments, etc., to adapt the Budget to the everchanging pattern of mission workload and its fund requirements.

Administrative management of funds and the Budget within the Command Management System requires a very broad range of experience. It requires a degree of foresight and ability to make decisions on the basis of the results of analytical trends. The field of budgeting is not one for individuals who rely on hard and fast rules or upon the strictly accurate results of a mathematical calculation. A budget is a live and moving thing. It is never static. It must be extremely flexible. It is bounded by a wide range of tolerance, not confined to a fixed static figure.

Summary

The perplexing problem of budgeting and

fund administration within the Federal Government was known to administrative and legislative personnel long before the general public evidenced an active interest. The problem became so acute that the President appointed a Commission composed of the best business and academic management talent available to make a comprehensive study of Government budgeting and funding procedures, and to make recommendations for improvement.

Congress enacted amendments to the basic budgeting and accounting Act of 1921 to implement many of the recommendations developed by the Hoover Commission. Many others, based on accepted criteria which obtains in private commercial enterprise were not acted on. These were not practical or desirable in Government operations.

The retained legislative control exercised by Congress in discharging its' responsibility to protect the interest of the taxpaying public preclude their adoption. Congress must insure that Government operations do not compete with private industry to produce those items which are readily available from the civilian economy.

The published regulations which implement the law, together with the prescribed detail of accounts, whereby Congress sought to assure protection of the Government from fraud and loss due to uninformed management, in themselves create excessive costs when compared with industry.

Industry is effectively policed by the necessity for a profit. That which is not profitable is automatically eliminated. Government operations, where no profit is contemplated or permissible, must be policed by laws enacted by the Legislative body, not by the law of supply and demand.

Further improvement and streamlining is highly desirable. Suggestions for workable changes which will make possible further efficiency and economy are sought after, however, even the most well meaning and energetic efforts are of no value unless the current management system and requirements peculiar to Government are thoroughly studied and improvements to that system are sought.

Blind research, with a view of improving "the old system" which has already been abandoned, will waste many manhours retracing the same areas already covered by the Hoover Commission and its' sub-committees. Progress is being made.

RETURN ON INVESTMENT



By Dr. H. K. Klopstock,
Budget Accountant,
American Cyanamid Company

Return on investment is a subject that receives much attention in current business literature. Dr. Klopstock presents an excellent review of the various approaches to the calculation of ROI and has outlined basic criteria for selecting the most satisfactory method for various industries.

Return on Investment is not a problem of our time, it has been with mankind since the early days of its economic development, particularly when a stage had been reached where an economic and legal relationship was developed between the owner of assets on one hand and a steward on the other hand. Already in those early times the efficiency of the steward was measured by comparing the value of his assets at the beginning and at the end of a period.

The importance of this problem grew immensely in our century when more and more individually owned enterprises were taken over by large corporations, leading to what has been called a managerial society. Therefore, we would expect that uniform procedures have been developed to measure objectively how efficiently the huge assets are being administered. However, though considerable progress has been made in recent years we are still lacking a generally accepted technique for computing R.O.I. Even the basic concept varies. If we speak of R.O.I. some will think of the return on the shareholders' equity while others will have the return on total assets in mind. In the latter case one group will show fixed assets at the gross value while others will deduct depreciation. Some will rely on the conventional method by showing the ratio of net profit to investment while others feel that the time element is important enough to apply the discounted cash flow method. We find considerable difference of opinion as to the rate of return which should be expected. Finally there are many problems in multi-plant and multi-divisional corporations and special problems arise in companies with vast foreign operations.

Let us start with demonstrating the difference of the meaning of R.O.I. from the viewpoint of the investor on one hand and of the operating personnel on the other hand by the following simple example:

Company A

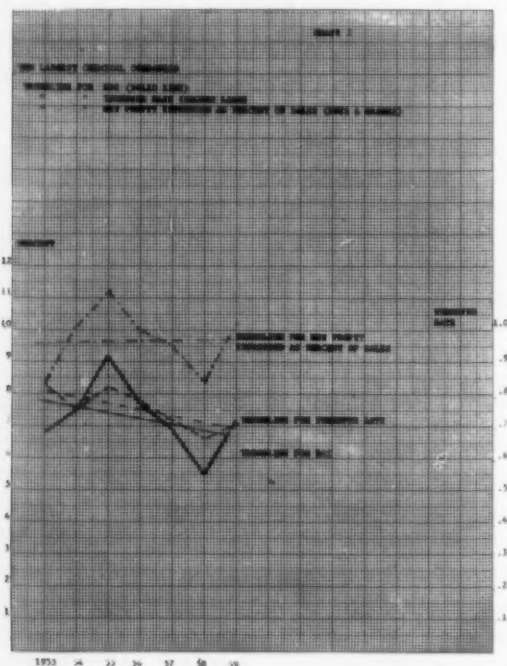
Assets \$100 Million	Equity Cap. \$100 Million
Net Inc. bef. Income Tax	\$ 15 mill.
Inc. Tax (at 52%)	7.8 "
Net. Inc. after Tax	7.2 "
Rate of Ret. on Invested Equity Capital	7.2 %

Company B

Assets \$100 Mill	Loan (at 4½%) \$ 60 Mill
	Equity Capital 40 "
100 Mill	100 Mill
Net Income bef. Interest	
Payout and Income Tax	\$ 15 mill.
less Interest Payout	2.7 "
Income bef. Tax	\$ 12.3 mill.
Income Tax (at 52%)	6.4 "
Net after Tax	5.9 mill.
Rate of Return on Invested Equity Capital	14.75 %

We have here two companies, both with total assets of \$100 million and a net profit before tax and interest payment of \$15 million. Therefore, as far as the operating personnel is concerned both companies are equally well managed. However, the rate of return on the shareholders' equity is more than twice as high in Company B due to the fact that the interest on the loan is not subject to income tax. Therefore, we want to clarify that in this paper we shall be only concerned with the R.O.I. from the standpoint of the operating personnel.

Another area we want to exclude are the so-called necessary investments like e.g. the installation of equipment to prevent air pollution or the erection of a cafeteria for the employees. As these expenditures are made in the interest of public or employee relations they depend on Company policy and are therefore not directly subject to strictly financial criteria. However, we can say from a financial viewpoint that non-productive expenditures will have to be kept within certain percentages of total capital expenditures which should be based on past experience. Otherwise we might be faced in the future with a considerable drop in R.O.I. for the Company as a whole.



After defining our subject we are now ready to examine the factors which determine the R.O.I. Conventionally the R.O.I. is calculated by dividing Net Profit after Tax by Investment.

$$\text{R.O.I.} = \frac{\text{Net Profit}}{\text{Investment}}$$

However, it is actually the product of two quotients:

Profit on the sales dollar times turnover ratio:

$$\text{R.O.I.} = \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Investment}}$$

Though sales cancel out mathematically it is interesting to observe how these two inter-related factors behave if the price policy is changed. A price reduction will reduce the profit on the sales dollar, which, however, can be more than offset by a higher turnover ratio. Also a comparison by industries and companies is of interest. Usually we shall find that in merchandizing companies and in light industries the turnover ratio is high while in heavy industries like chemicals, steel and machinery the turnover is low due to the high investment. Therefore, in the latter groups the profit on the sales dollar has to be higher in order to result in a satisfactory return on investment.

On chart 1 R.O.I., profit on the sales dollar and turnover ratio are shown for the ten largest chemical companies combined and the trendlines were mathematically determined as shown below.

Trendline Computation of R.O.I. for the 10 Largest Chemical Companies

	y	x	xy	2
	R.O.I.	Time Dev.		x
1953	6.8	3	20.4	9
54	7.5	2	15.0	4
55	9.2	1	9.2	1
56	7.7	0	—	0
57	6.9	— 1	— 6.9	1
58	5.5	— 2	— 11.0	4
59	7.2	— 3	— 21.6	9
	50.8		5.1	28

$$a = \frac{y}{n} = \frac{50.8}{7} = 7.26$$

$$y \text{ 1953} = 7.26 + .546 = 7.81$$

$$b = \frac{xy}{x} = \frac{5.1}{28} = .182$$

$$y \text{ 1959} = 7.26 - .546 = 6.71$$

While the trendline for the return on the sales dollar is practically level the trendline for the R.O.I. shows a decline, which appears to be due to the lower turnover ratio.

This means that the sales volume has not increased at the same rate as investment, for which there are a number of reasons:

1. In recent years production capacity has been increased considerably in many areas in anticipation of higher sales in the years to come.
2. Construction costs have risen fast while prices for chemicals have increased only moderately.
3. Due to automation the investment per sales dollar is going up. This on the other hand should result in lower variable costs for labor, which, however, is offset by higher labor rates.

This example shows that the profit on the sales dollar does not tell us the whole story as its satisfactory performance is more than offset by an unfavorable trend in the turnover ratio.

(Trendlines for the profit on the sales dollar and for the turnover ratio were computed by the same method).

We now want to analyze briefly total investment, which we find in the denominator of our R.O.I. formula. It consists of current assets particularly inventories and receivables. Average inventories can be obtained easily from inventory records not only for the company as a whole but also for divisions, departments and product lines, and receivables can be calculated by using the collection periods as determined by the Credit Dept. for the various sectors of our business.

However, as far as fixed assets are concerned the question arises if they should be shown at gross or at net value. As in recent years many large companies have decided to base their R.O.I. computations on gross value we want to analyze what this method — which is often referred to as the "Accounting method" — means economically. Let us assume that a plant was built 10 years ago and was depreciated by the straight line method at the rate of 10% per year. Therefore, after 10 years the plant is fully depreciated but as it is still in good working condition the assets were not retired and are therefore still contained in the gross figure of fixed assets. The depreciation reserve on the other hand was in the meantime invested in another plant which

also appears in the gross figure of fixed assets. Therefore, using this method, we arrive at an inflated investment figure, which results in a conservative R.O.I. This in itself is not objectionable as we are building a reserve against investments which may be a failure and which therefore have to be retired prematurely, and if we are consistent in the method which we apply, the resulting R.O.I. figures will be valuable particularly for comparing actual with budget or the present period with previous periods. Also comparisons of divisions and companies will be meaningful.

But, if we want to compare the efficiency of specific economic units like two plants on this basis some problems may arise as the following example illustrates:

We have two plants both producing the same product and both built at a cost of \$20 million. However, plant A was built several years ago and is now 50% depreciated while plant B was built recently. Since plant A is old, repair and maintenance costs are higher and the efficiency is lower, therefore the potential net profit resulting from the production is only \$1 million while the new plant B yields \$2 million potential net profit. If we use in both cases the original investment of \$20 million plant A will show R.O.I. of only 5% against 10% for plant B which appears to be a distorted comparison because we are debiting plant A with a higher repair and maintenance cost, without crediting its investment with the depreciation reserve. It has been argued that rising construction costs are an offsetting factor as a new plant would cost considerably more than an equivalent plant erected a number of years ago, and therefore the investment for plant B would be actually considerably higher. However, we must not lose sight of the fact that this is only valid as long as the present inflationary trend lasts. If we have once again a period of deflation as we have seen it in the thirties after a long period of inflation then the two factor instead of offsetting each other would add up to increase the distortion.

On the other hand, if the inflationary trend increases the comparison would be distorted in favor of the old plant as the difference in depreciation might not be high enough to offset increased building costs.

The economically correct solution would be to multiply the cost of the old plant by factors which express the change in the price index for construction, machinery and equipment and arrive in this way at an adjusted investment figure,

which is reduced by an amount for depreciation based on the economic life of the plant.

Another problem which we encounter is the fact that the conventional R.O.I. method does not take the time factor into consideration as the following example illustrates:

We have a project A, requiring an investment of \$1 million. It is a new product for which the market will have to be developed, therefore prof-

its will be small in the beginning but will grow gradually.

Then we have a project B, costing likewise \$1 million for a product which is much in demand now, but sales and profits are expected to taper off due to a high degree of obsolescence in this particular line. Therefore, the profits from the two projects are estimated as shown in col. 2 of the tabulations below:

R O I Computation Project A
Investment \$1 Million
(Discounted Cash Flow & Conventional Methods Applied)

Year	Net Profit after Tax in Thous. \$	Deprec. Straight Line Bas. 20 Years in Thous. \$	Total Cash Flow in Thous. \$	Cash Flow Discounted at 12%	Cash Flow Discounted at 9%
1	10	50	60	56.52	57.36
2	10	50	60	50.16	52.44
3	20	50	70	51.87	55.93
4	20	50	70	45.99	51.10
5	20	50	70	40.81	46.69
6	60	50	110	56.87	67.10
7	100	50	150	68.85	83.55
8	120	50	170	69.19	86.53
9	120	50	170	61.37	79.22
10	120	50	170	54.40	72.25
11	120	50	170	48.28	66.13
12	120	50	170	42.84	60.35
13	120	50	170	37.91	55.25
14	120	50	170	33.66	50.49
15	120	50	170	29.92	46.07
16	120	50	170	26.52	42.16
17	170	50	220	30.36	49.94
18	170	50	220	27.06	45.54
19	170	50	220	23.98	41.58
20	170	50	220	21.12	38.06
	2.000	1.000	3.000	877.68	1,147.74

Average Annual

Net Profit 100

Average Book

Investment 500

R O I (Conventional or Accounting method on the basis of Gross Investment) $\frac{100}{1,000} = 10\%$

R O I (on the basis of Average Book Investment) $\frac{100}{500} = 20\%$

R O I on the basis of Discounted Cash Flow

a = 1,147.740 - 877,680 = 270.060

b = 1,147.740 - 1,000.000 = 147,740

c = $\frac{b}{a} = \frac{147,740}{270.060} = 54.7\%$

d = 3% x 54.7% = 1.64%

R O I = 10.64 %

R O I Computation Project B
(Discounted Cash Flow & Conventional Methods Applied)
Investment \$1 Million

Year	Net Profit after Tax in Thous. \$	Deprec. Straight Line Bas. 20 Years in Thous. \$	Total Cash Flow in Thous. \$	Cash Flow Discounted at 18%	Discounted Cash Flow at 21%
1	200	50	250	228.750	225.500
2	200	50	250	191.000	182.750
3	200	50	250	159.750	148.250
4	200	50	250	133.250	120.000
5	200	50	250	111.500	97.250
6	90	50	140	52.080	44.240
7	65	50	115	35.765	29.440
8	65	50	115	29.900	23.805
9	65	50	115	24.955	19.320
10	65	50	115	20.815	15.640
11	65	50	115	17.365	12.765
12	65	50	115	14.490	10.350
13	65	50	115	12.190	8.395
14	65	50	115	10.120	6.785
15	65	50	115	8.510	5.520
16	65	50	115	7.015	4.485
17	65	50	115	5.865	3.565
18	65	50	115	4.945	2.875
19	65	50	115	4.140	2.415
20	65	50	115	3.450	1.955
	2.000	1.000	3.000	1,075.855	965.305

Average Annual

Net Profit 100

Average Book

Investment 500

ROI (Conventional or Accounting method on the basis
of Gross Investment)

$$\frac{100}{1000} = 10 \%$$

ROI (on the basis of Average Book Investment)

$$\frac{100}{500} = 20 \%$$

ROI (on the basis of the Discounted Cash Flow)

$$a = 1,075.855 - 965.305 = 110.550$$

$$b = 1,075.855 - 1000.000 = 75.855$$

$$\frac{b}{a} = \frac{75.855}{110.550} = 68.6 \%$$

$$3 \% \times 68.6 \% = 2.06 \%$$

$$R O I = 20.06 \%$$

As in both cases the average annual profit amounts to \$100,000 and total investment is \$1 million an R.O.I. of 10% results on the basis of gross value of investment. On a net value basis we arrive for both projects at an R.O.I. of 20%, assuming a 10% straight line depreciation, which results in an average book investment of \$500,000.

Though obviously project B has greater merits as high receipts at the beginning of the life span of a project are more valuable than high proceeds 10 to 15 years from now, the conventional method of calculating the R.O.I. shows the

same figure for both projects i.e. 10% based on gross value and 20% based on net value of the investment, because these methods fail to take the time factor into consideration.

The difference between the two projects becomes apparent if we apply another criterion, the number of years it takes to pay the investment from the cash flow, which means depreciation plus net profit after tax. While for project B this period amounts to only 4 years it is 9.4 years for project A. This test is important for those projects which involve the danger of a short life span. If we can say that the

payback period is short we have a certain protection against this risk. However, the drawback is that this method does not pay any attention to the profitability in the years beyond the payout. Fortunately, in recent years a new concept has been developed, which avoids the aforementioned shortcomings. The concept I refer to is known as the Discounted Cash Flow or Investors' method which consists in determining at what discount rate the expected cash receipts from the project equal the investment. This indicates the maximum rate of interest at which funds could be borrowed to finance the project without showing a loss.

In order to illustrate this method we have shown in col. 4 of the above charts the total expected cash flow which means depreciation plus anticipated net profit after tax. In the case of project A we have discounted the receipts at 12% and at 9%. As in the first case the sum of the discounted cash receipts is larger than the investment while in the second case it is smaller we know that the rate at which we have to discount must be between 9% and 12%. The exact figure was then calculated at 10.6% with the help of an interpolation method shown at the bottom of the tabulation.

In the same way we arrive at a rate of 20.1% for project B. It therefore shows that project B is 100% better than project A. It is evident that the answer which we have received by discounting the cash flow is more realistic than the result which we get by applying the so-called accounting method which gave us the same answer for both projects. I would also like to mention that the Discounted Cash Flow method reflects automatically the impact of the time lag between the investment and the beginning of production in the new plant. The Discounted Cash Flow approach is superior to the Accounting method because it puts a time value on the cash receipts and it is superior to the Payout method because it takes the profitability beyond the payout period into consideration.

As the discounted Cash Flow concept provides us with the tool to evaluate correctly the profitability of an investment it should be applied to all new projects. It will be of particular value if there is a scarcity of funds and we have to make a choice between two projects.

After we have reviewed the methods of computing the R.O.I. we are now ready to discuss the rate of return. In determining the required rate of return first we have to take the cost of

capital into consideration, which means the composite of the interest we have to pay for loans and the return which the shareholders expect on their investment. This means not only dividend payments but also retained earnings which are required to finance the future expansion from within the Company.

In this time of inflation retained earnings are of particular importance because we may find that the accumulated depreciation reserve is not sufficient to pay for replacements due to increased cost of construction and higher prices of machinery and equipment.

Finally, the expected R.O.I. will depend on the degree of risk involved in the project. It is obvious that e.g. in the case of a chemical like sulfuric acid which is used for a great number of different purposes and which in all probability will have a long useful life we can be satisfied with a lower R.O.I. than e.g. in the case of certain pharmaceuticals like antibiotics which have a high degree of obsolescence.

The work of the budget man is not finished when the capital expenditure has been made. After a period of 1 to 2 years a post-audit should be made to determine if the anticipated R.O.I. has materialized. If we have fallen short of the goal an analysis will tell us if it was due to a too optimistic sales forecast, an overrun in construction costs, higher than anticipated raw-material usage etc. This will help us to focus our attention to certain areas when evaluating future requests for capital expenditures.

We still want to mention briefly a few special problems which we may encounter in our R.O.I. computations.

If we want to determine the R.O.I. for the various divisions of a Company which transfers products from one division to another at cost rather than at market-price we are faced with the question of how to distribute certain investment figures to the Divisions. Let us assume that Division 1 manufactures product A for which it has an investment of \$10 million. In one year Div. 1 produced 10 million lbs., of which it sold 6 million lbs. and transferred 4 million lbs. to Div. 2, which uses product A as an Intermediate for product B. Therefore, the investment of \$10 million was split 60:40 between the 2 Divisions, charging \$4 million to Div. 2. In the next year Div. 1 shows a poor sales performance. Sales amount to only 4 million lbs. while Division 2 uses the same quantity of 4 million lbs. as in the previous year.

Now the split of the investment of \$10 million is 50:50. Therefore, the charge to Div. 2 amounts to \$5 million or \$1 million more than the previous year. In this way, Div. 2 shows a lower R.O.I. for a reason over which it has no control.

Unless it is possible to switch to a transfer at market price the next best solution would be in such cases to distribute the investment on a predetermined basis in order not to penalize one Division for the poor performance of another Division.

Particular problems may also arise if we want to compute the return on our foreign investments.

Some companies consider it better to compare the performance of their foreign subsidiaries on the basis of net profit before tax because a comparison after tax would be unfair to the manager of a subsidiary in a high income tax country. However, I would definitely advocate a comparison on the basis of net profit after tax. For one country may have high income taxes but it may have liberal depreciation allowances and it may have lower wage and freight rates because the government is using funds from income taxes for medical and old age benefits or it may subsidize government-owned railroads. If we want to adjust for a difference in income taxes we would have to do the same for all other factors.

However, sometimes, a different basis may be indicated, e.g. in the case of Oil Companies, where depreciation and depletion allowances are of great importance. In these cases the ratio of net profit after tax plus depreciation of investment should be used as a basis for comparison.

We can now summarize as follows:

1. A procedure is required to insure that investment opportunities are examined objectively.
2. The so-called Accounting method gives valuable results for comparing actual with budget and the performance in the present period with past periods.

3. The payout is an important tool in cases which involves the risk of a short life span.
4. The discounted Cash Flow method should be applied to all new projects because it takes the time factor into consideration.
5. The required rate of return is determined by the cost of capital, capital required for growth and the degree of risk inherent in the project.
6. Post auditing of the R.O.I. is important as it gives us a guide for future capital expenditures.
7. In order to calculate the R.O.I. for the divisions of a Company products should be transferred at market price rather than at cost.
8. Special studies are required for the return on foreign investment.

Finally, I would like to say a word about the importance which the Return on Investment problem has in the economy of our country. As you know we do not have a central planning agency just as we do not have a production and price control agency. However, just like consumer goods are kept in balance by the law of supply and demand, the return on investment concept can play a similar role for capital investments by channeling funds into those areas where they generate as fast as possible new capital which can be reinvested, resulting in an increased economic growth rate. But we must be aware of the fact that results can be satisfactory only if we are building on firm ground. The long range forecasts which serve as a basis for capital expenditures must be worked out as carefully as possible and the methods used for calculating the R.O.I. must be economically sound.

I believe that we budget men have the opportunity and the responsibility to play an important part in the great challenge of our time: To accomplish an accelerated and healthy growth of our economy. ■-



HAVE YOU HEARD THIS ONE?

Young Lion (to Zookeeper): "Say, mister, I've been here three days and all I get to eat is grapes and bananas. What kind of a diet is that for a lion?"

Zookeeper: "Blame it on the accounting department. They've got you budgeted as a monkey."

From the Jan. 1961 issue of the Los Angeles Chapter Newsletter

ELEVENTH ANNUAL NATIONAL CONFERENCE MAY 25-26, 1961
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ON NEXT PAGE

GALA WESTERN PARTY

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CONFERENCE PROGRAM

THURSDAY, MAY 25, 1961

10:00-11:00 A.M.

SUBJECT:

"PLANNING INTERNATIONAL OPERATIONS"

SPEAKER:

W. D. McGUIRE

Manager, Long Range Planning
Kimberly-Clark Corporation

RESUME:

Planning and appraising profit opportunities in the international arena must pass the same fundamental test as domestic problems. However, the difficulties in collecting reliable data, complications in determining the rate of return, the effect of local tax laws and other particular problems require special consideration.

11:00-12:00 A.M.

SUBJECT:

"PLANNING IN A GROWTH INDUSTRY AND COMPANY"

SPEAKER:

C. J. THOMSON

Vice-President, Control and Finance
Texas Instruments, Inc.

RESUME:

Texas Instruments, Inc. has been and is one of the nation's most rapidly expanding business enterprises. Mr. Thomson will discuss the several areas of their planning activities, more specifically those related to research and development expenditures, which have contributed so heavily to successful operations.

12:30 P.M.—LUNCHEON SPEAKER

LOUIE E. THROGMORTON

Vice-President and Director of Public Services
Republic National Life Insurance Company

2:30-4:30 P.M.—PANEL DISCUSSIONS

SUBJECTS:

"BUDGET REQUIREMENTS RELATING TO DEFENSE INDUSTRIES AND GOVERNMENT"

"AUTOMATED BUDGETING"

"PUTTING PLANNING TO WORK IN THE OIL AND GAS INDUSTRY"

"CHALLENGES OF INSURANCE INDUSTRY PLANNING"

"BUDGET PRESENTATION AND REPORTING TO MANAGEMENT"

"PLANNING FOR MANUFACTURING OPERATIONS"

FRIDAY, MAY 26, 1961

10:00-11:00 A.M.

SUBJECT:

"PROFIT PLANNING THROUGH DIRECT COSTING"

SPEAKER:

FLADGER F. TANNERY, Ph.D.

Executive Vice-President
The Frito Company

RESUME:

Dr. Tannery will relate direct costing to the total planning picture, the challenge to use these management tools, and the practical implementation of such a program.

11:15-12:15 A.M.

SUBJECT:

"PLANNING IMPLEMENTATION AND APPRAISAL THROUGH 'PERT' "

SPEAKER:

WILLARD FAZAR

Assistant for Advanced Management Systems
Navy Special Projects Officer

RESUME:

Project evaluation and review technique (Pert) and its effectiveness in the planning and control of the Navy's Polaris missile program and potential use in industry.

12:30 P.M.—LUNCHEON SPEAKER

THE HONORABLE BRUCE ALGER

Congressman, Fifth District
Member of the House Ways and Means Committee

2:15-4:30 P.M.—BUSINESS PLANNING GAME

DIRECTOR:


DR. TIBOR FABIAN

Management Sciences and Operations Research
Division

Lybrand, Ross Bros. & Montgomery

RESUME:

Participants will form companies and business operations will be simulated to test planning effectiveness and decision making abilities. This will be done with the aid of an IBM electronic computer.



Budgeting Production Through Sales Forecasting

By Frank B. Gardner

Principal — Philadelphia Office
Arthur Andersen & Co.

K. H. Schaffir

Manager — New York Office
Arthur Andersen & Co.

Planning the manufacture of products having a highly variable demand due to seasonal or fashion influences is one of the most difficult tasks confronting management. The authors, using the textile industry as an example, outline a control system that can be adapted for use in many seasonal industries.

Using forecasts of future sales is a gamble. The accumulation of inventories in anticipation of these sales involves a risk. The risk is least in those lines not subject to obsolescence and deterioration; the greatest when subject to rapid deterioration, such as fresh produce, or style obsolescence, such as high fashion merchandise. Typical of the latter category are apparel fabrics and similar textile merchandise. The uncertainties of the style or fashion industry make it difficult to predict demand for a given fabric, and much more so for a particular pattern and color. Style changes from season to season make any merchandise which remains unsold at the end of the season obsolete and subject to costly write-downs.

Historically in the textile industry, supply has fluctuated widely, usually out of balance with demand. Overproduction by textile mills means increasing inventories which inevitably lead to price reductions, dumping, lowered profits, losses, and even failures. On the other hand, underproduction means less inventory with sales limitations, underabsorption of labor and overhead costs which can also lead to lowered profits or losses. It is not necessary for managements of textile mills and manufacturers of similar seasonal goods to allow themselves to be trapped in this destructive cycle. Whenever adequate control systems are applied to production and inventories in a manufacturing plant, that plant and the entire industry as well benefit in terms of increased profits. Such systems of control are available today to all factory managements.

Control Systems for Evaluating Risks

These control systems provide management with a measure of the revenues and costs, as well

as risks, associated with alternative decisions. Using these systems, management can decide, based upon a realistic appraisal of the odds in favor of profits, whether or not to take a specific degree of risk.

These systems do not in any way replace management's judgment. They are simply a means of achieving a clearer understanding of the factors relating to cost, revenue, and risk, and thus serve as one more powerful aid to management. They present to the people in the organization who decide what is to be produced and when, the necessary facts based on the best available forecast information, in concise and directly useable form.

While the same basic underlying principles are used in all such systems, each must be tailor-made to fit the specific conditions of a particular industry and company. The basic purpose is in each case to maintain inventories in such a way as to minimize write-downs and unnecessary stocks, while providing enough to prevent loss of business and permit the leveling of production to the extent economically justified. The control of inventory is achieved, however, not through arbitrary limitations placed on inventories (such as a one month's stock maximum) or on production level (such as, for example, one-shift operation at certain times of the year), but by application of forecasting and economic evaluation procedures to the individual items contained in the inventory.

This may sound like a complicated job but, in fact, the system can be designed in such a way as to take very little clerical time to operate. Computers are not required, although where data processing equipment is already installed it can be used to good advantage.

It should be added that such a system may or may not cut down a company's inventories. Our experience shows that in some cases individuals who have been responsible for inventory control have, in fact, through luck or an unusual ability to predict sales, found the right combination of items to be made in the right quantities, year after year. However, these control systems are designed to put this type of thinking on a routine basis, and making it less dependent on the continuous attention of the few individuals in a company who have the know-how and experience to deal with this, thus freeing them for other problems.

Problems of the Textile Mill Manager

The particular system described in detail was developed specifically for a fancy goods textile mill which produces highly styled and relatively high-priced fabrics, generally characterized by a strongly seasonal pattern of sales, each selling season representing, in effect, a separate venture. The principles of the system, however, would apply to any business producing seasonable merchandise such as clothing, shoes, or toy manufacturers, and with slight modification to manufacturers of items with less volatile seasonal sales patterns such as carpets and small home appliances.

In the case of fancy goods mills, a new line of merchandise is prepared each season with very little carry-over of styles, patterns, or colors from the previous season. Merchandise left unsold at the end of the season must generally be marked down substantially for disposal — often to a price which does not even cover incremental costs. The system described here provides methods for measuring the risk of adding various quantities of different items to inventory. It consequently gives management a tool for systematically controlling the extent to which goods are manufactured in anticipation of customer orders so as to achieve minimum end-of-season write-downs, while providing adequate inventories to meet customer demands.

Inventory must be provided without specific customer orders on hand for two basic reasons:

1. Customers require quick delivery, on the order of two to four weeks. With a production cycle of six to eight weeks, it is impossible to delay production until orders are received without losing sales.
2. Seasonal fluctuations in sales are sharp and it is not economically feasible to provide productive capacity to meet peak demand.

Net Expected Profit

The risk associated with inventory is measured by its net expected profit. For example, suppose we are dealing with an item whose regular selling price is \$1.00 per yard. If this item has a variable cost of \$0.60 per yard, there will be a unit profit of \$0.40 per yard over variable cost for each yard sold. Suppose that if the item is left unsold at the end of the season it will have to be written down to a selling price of \$0.40 per yard, resulting in a unit loss of \$0.20 per yard.

Then, let us say that one specific yard of material, which we want to put into inventory, has a probability of 80% of being sold during the regular selling season. The probability of its not being sold or being left over at the end of the season would, of course, be 100% less 80%, or 20%. We, therefore, expect to make a unit profit of \$0.40 per yard with a probability of 80%, or a probable profit of 32 cents per yard. At the same time, we expect to take a \$0.20 unit loss with 20% probability, or \$0.04 per yard. The *net expected profit* of this particular yard of material is, therefore, the difference between the expected gain of 32¢ and expected loss of 4¢ or 28¢ per yard.

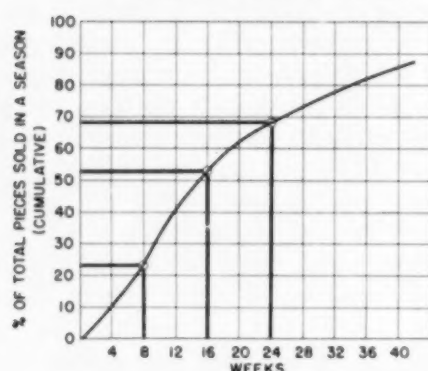
The net expected profit is reduced as the probability of selling the one specific yard of material is lessened. If, in the example above, the probability of selling the material is only 40%, the net expected profit of the particular yard of material is the difference between an expected gain of 16¢ and an expected loss of 12¢, or 4¢ per yard.

The selling price during the regular selling season, as well as the written-down selling price at the end of the season, are usually determinable from normal accounting records. The same is true of variable costs. It is clear, therefore, that the determination of net expected profit depends on our being able to establish the probability that any particular yard of goods put into inventory today will be sold before the end of the normal selling season.

Forecasting Future Sales

The first step in arriving at this probability is to consider the way in which sales for the *line* as a whole develop during the course of the selling season. (See Figure 1.) A line for this purpose includes all items manufactured for sale in a single distribution channel at roughly the same price range. For example, men's flannel shirting selling in the range of \$1.00 to \$1.20

FIGURE 1
TYPICAL PATTERN OF SALES



per yard would be considered as one line. An item in such a line would be a specific pattern and color combination such as, for example, red and grey plaid flannel shirting material.

Suppose we were to express orders received to date at the end of each week for such a line in terms of percentage of total sales for the line for the entire season, and then plot the percentage figures obtained against the corresponding week numbers as shown in this illustration. (For purposes of simplicity, we will refer to orders received as sales.) In general, we will find sales patterns developing slowly at the beginning of the season, building up rapidly as the season gets underway, and then leveling off again towards the end of the season. For example, at the end of the eighth week of the season, we might have sold about 23% of the total sales of the line for the entire season, at the end of the 16th week we might have sold about 53% and at the end of the 24th week about 68%. This basic pattern varies from line to line, depending primarily on the length of the selling season and also on the specific market served, such as men's wear, women's wear, piece goods, etc. Given the type of line, it is necessary, then, to find the length of the selling season in order to determine the basic sales pattern.

In some markets the duration of the season is quite constant and predictable from year to year. For certain items it is possible to fix the end of season date with good accuracy since it depends on the schedules of manufacturers which are tied to dates of major holidays, such as Christmas and Easter. In others, it varies and must be re-estimated each season. Procedures used for doing this involve a continuous comparison of orders received to date for the current season with various "standard" patterns representing different lengths of season, to determine which standard most nearly corresponds to the actual.

One procedure which can now be used for

forecasting the present year's total sales at various times during the year, based on the performance of the particular or similar item during the previous year, is called the Line Ratio (LR) method. This is shown in the following illustration:

Assume that on the first of June, 1961, it is desired to estimate what the total sales for the year will be. A record in some form must be available showing sales (orders received) for that item for each month the previous year (See Figure 2.). In another column on the record,

FIGURE 2

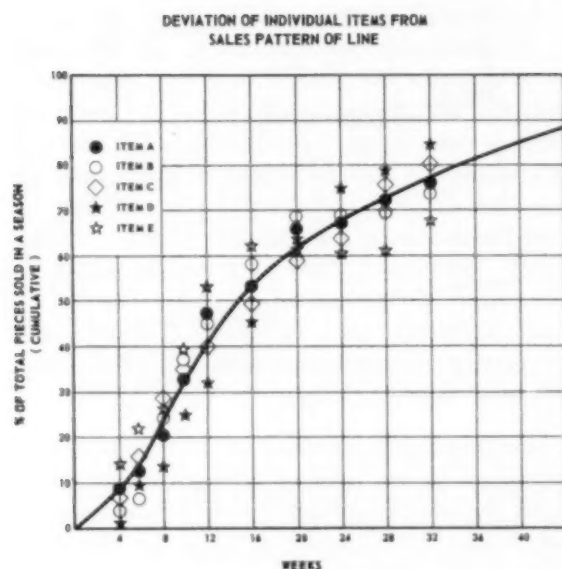
MONTH	1960			1961		
	SLS	CUM SLS	LR	SLS	CUM SLS	F' C' S' T
JAN.	4	4	18.25	6	6	110
FEB.	6	10	7.30	9	15	110
MAR.	10	20	3.65	8	23	84
APR.	4	24	3.04	10	33	100
MAY	11	35	2.08	10	43	90
JUNE	3	38	1.92			
JULY	8	46	1.58			
AUG.	3	51	1.42			
SEPT.	4	55	1.32			
OCT.	7	62	1.18			
NOV.	8	70	1.04			
DEC.	3	73				

monthly sales are accumulated. For example, the cumulative sales through April, 1960 of this item amounted to 24 units. The third column lists the Line Ratio (LR) for each month. The LR is the quotient of total annual sales divided by total cumulative sales through any month. For example, the LR for March is 3.65 which is obtained by dividing total annual sales (73) by total sales through March (20). That is, 73 divided by 20 equals 3.65.

Under 1961, sales are recorded and accumulated as in 1960. The cumulative sales for any month in 1961 multiplied by the LR for the same month in the previous year will provide an estimate for total sales for 1961. For example, the LR for May, 1960 is 2.08, cumulative sales through May, 1961 are 43 units. Then 2.08 multiplied by 43 gives 90 units as a forecast for total 1961 sales.

This technique, although quite effective, is not a panacea for all forecasting. In general, this method of forecasting should be used with great care when the item is very slow moving and when data on only a few months' performance are available.

FIGURE 3



Now let us return to the determination of probabilities. Individual items in the line will, of course, deviate from the basic pattern of the line as a whole, shown by the black line (Figure 3). The Line Ratio method gives a way of estimating what the total sales for the line for the entire season will be, *on the average*, based on the amount which has been sold to date. For example, we know that, for this particular line, we should expect to have sold 40% of the season's total by the end of the twelfth week. Therefore, if we have sold 1,000 pieces to date, we may expect to sell a total of 1,000 divided by 40% or 2,500 pieces for the line for the season as a whole. Another way of saying this is that half the items in the line have sold more than 40% and half have sold less. In terms of probability we can say that we are 50% sure that sales to date for any one item represent not *more* than 40% of total sales for the season. Conversely, we are also 50% sure that sales to date for any one item represent not *less* than 40% of total sales for the season.

The basic sales pattern can, therefore, be considered as a 50% probability limit on sales of individual items on this line. Sales of an individual item on the line cannot be predicted with as much accuracy as the line as a whole. However, by analysis of past sales records, such as shown here, the probability that any one item will deviate by more than a specified amount from the over-all pattern of the line can be determined. For example, it can be shown that by the end of the 16th week, 90% of the items

in the line would have sold 60% or less of the season total. Conversely, 10% of the items in the line have sold more than 60% of the season total. We determine this 90% limit by looking at the data for individual items such as are shown in Figure 2 and finding that 90% of the items in the line did, in fact, have sales of less than 60% of the season total by the end of the 16th week and 10% have more than 60%.

Therefore, we can say with 90% assurance that total season sales will be at least 1,000 divided by 60%, or 1,667 pieces. This, of course, is a more conservative estimate than the 2,500 pieces anticipated at a 50% assurance level.

With a 70% probability limit, the 1,000 pieces sold to date might represent 50% of season total, giving an estimate of 1,000 divided by 50%, or 2,000 pieces for the season. This, of course, falls between the 90% and 50% estimates of 1,667 and 2,500, respectively.

Note that at the 100% probability limit we can be 100% sure that sales to date represent not more than 100% of season total, or that total season sales will be at least 1,000 pieces divided by 100%, or 1,000 pieces.

Stated another way, this approach to forecasting tells us that we can be 100% certain of selling only the quantity of items for which we already have received orders — we may never receive another order for the item. The more we manufacture beyond this known sales figure the less probability there is of selling the total quantity produced.

For use in the inventory anticipation system, tables are prepared of incremental sales ratios which, when multiplied by season sales to date for a specific item in the line in a specified week, give the number of additional pieces expected to be sold with a specified average probability. Separate tables of this type are provided for different lengths of selling seasons for each of the lines. Note that these estimates directly take into account current business conditions in the sense that the higher sales generally, the higher the estimates (being based on current sales to date).

Presentation to Management

All this information must now be put in a form which management can use. This is illustrated in Figure 4. A separate report of this sort is prepared each week, showing the additional quantities that should be manufactured to provide for anticipated total sales based on different levels of probability. Red figures, in

FIGURE 4

QUANTITIES AVAILABLE FOR MANUFACTURE-SUMMARY
WEEK NO. 10 (FROM END OF SEASON)

LINE	ITEM	ORDERS RECD TO DATE	ON HAND AND IN PROCESS	AVAILABLE FOR MANUFACTURE-CUMULATIVE							
				82.5%		60%		50%		40%	
				QUANT	NEP	QUANT	NEP	QUANT	NEP	QUANT	NEP
A	2501	206	251	(96)	65	(41)	40	22	25	99	10
	2502	445	605	(271)	65	(151)	40	(14)	25	151	10
	2503	15	30	(20)	65	(16)	40	(10)	25	(2)	10
B	1603	304	246	(18)	30	6	10	158	(10)	270	(30)
	1606	221	195	(29)	30	30	10	98	(10)	181	(30)
	1608	36	10	12	30	24	10	38	(10)	51	(30)
ETC											

brackets in the illustration, indicate that the total quantity now on hand and in process exceeds the requirements for that level of probability. Also shown is the Net Expected Profit or loss associated with each level of probability.

This report shows that, while there is a greater probability of selling 60 additional units of Line B than 250 additional units of Line A, net expected profit would be the same in either case, namely \$0.10/unit. The report also indicates that only 60 units of Line B should be produced, as any additional units beyond this show a net expected loss. If production facilities are extremely limited in the coming period, this report indicates that the "best" (highest net profit) item to produce would be 12 more units of Item 1608 of Line B.

The system is self-correcting in that a new forecast is made each week.

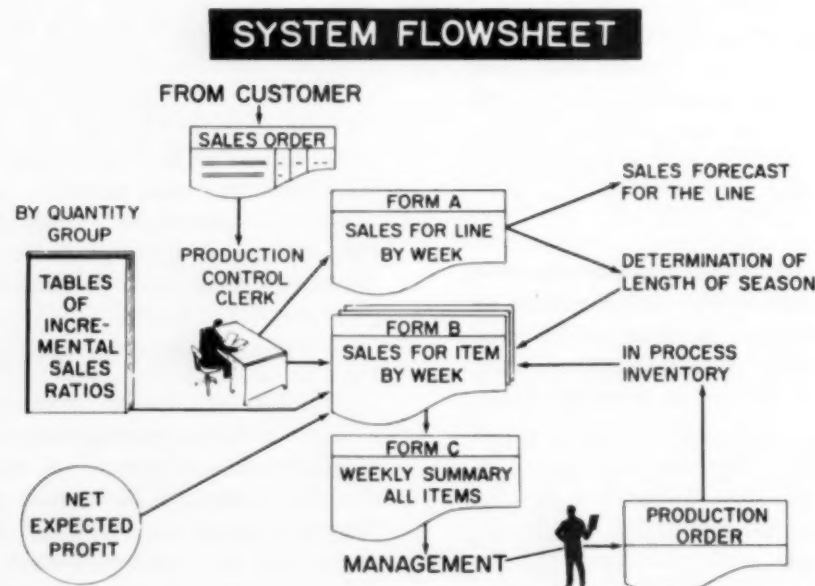
Summary of Inventory System

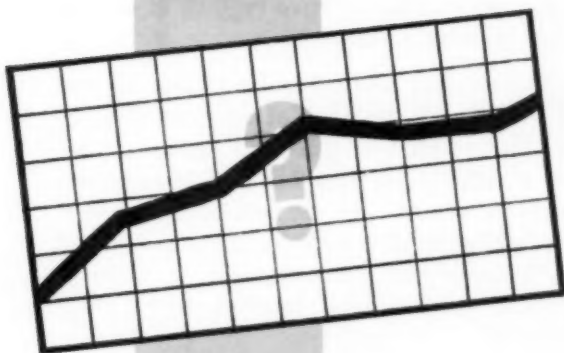
A summary of the system is shown in Figure 5. As sales orders are received at the mill they go to a production control clerk who posts sales both for the line as a whole and for each individual item in the line. The data for the line as a whole are used to prepare total forecasts by line; the data for individual items are used to make sales forecasts at different levels of probability. These are posted to a weekly summary sheet from which production orders can be issued. Allowance must be made, of course, for the posting of production orders so as to keep inventory records current.

Management is apprised at all times during the season of the odds of selling enough goods to fill the looms profitably, and of how to allocate looms among styles so as to get the best odds. If the quantities scheduled for production are at or below the zero net expected profit (break-even), management knows that continued operation with the present styles will result in unjustifiable accumulation of stocks.

It should again be pointed out that this system is not designed to eliminate judgment. Rather, it is intended as a basis for the application of judgment by production personnel. The system does not eliminate write-downs or lost sales. It attempts to balance inventories so as to keep write-downs at a level which is economically justified. The system does improve the odds of having the right material on hand throughout the season. It has been installed and used successfully on a wide variety of items. □

FIGURE 5





DEPRESSION

Another Comment

By Idrian N. Resnick

The latest reply to Mr. Dudick's article on depression in the June 1960 issue comes from Mr. Idrian N. Resnick, holder of a National Defense Fellowship and a graduate student in the Department of Economics at Boston University. Mr. Resnick's interest in business cycles results from independent work he has done in the field of economic forecasting.

In the June 1960 issue of *Business Budgeting* Mr. Dudick asked "Are We On the Threshold of Another Depression?" His answer appears to be that another depression is not only possible but likely. This conclusion is based on the fact that certain 1929 and 1960 time series are highly correlated. The question is not whether another depression is possible but whether it is probable. Business fluctuations are most likely permanent phenomena in our economy. It is now possible, however, to prevent these fluctuations from developing into depressions through the proper use of monetary and fiscal policy. There is no reason to believe that recessions will not be attacked by quantitative and qualitative countercyclical measures. The probability of another depression occurring should, therefore, be estimated in relation to the likelihood of these measures being undertaken.

The more basic question to be asked in relation to Mr. Dudick's comments is what are the limitations and values of forecasting general economic activity? Economic forecasts are estimates concerning future economic events. The accuracy of a forecast in most cases will depend upon: (1) the choice of economic indicators; (2) the statistical techniques used in making quantitative predictions; and (3) unforeseen factors that intervene between the time the fore-

cast is made and the actual event. How do Mr. Dudick's forecasts meet these criteria?

1. Economic indicators which adequately described conditions before the depression were used by Mr. Dudick in his analysis of the current situation. However, changes that have occurred in the past thirty years suggest that these indicators have lost some of their relevance and should not be viewed in isolation. Such changes include: the increased role of government, both as a contributor to GNP and as an institutor of countercyclical measures; the altered position of the United States in the world economy; and significant changes in the composition of stock market investors and Security Exchange Commission rules.

2. There is no indication in Mr. Dudick's article that he has made any statistical calculations beyond the comparison of some 1960 and 1929 time series and the calculation of the percentage of the population over 65 years of age. Economic forecasts made with such limited techniques are tenuous and fail to provide a sound foundation for decision-making.

3. Mr. Dudick does not account for the multitude of incalculable variables that can bring about a wide divergence between predicted and actual events. Countercyclical steps taken by the

government during recessions are only some of these unforeseen factors. The possibility of such factors intervening between the time a forecast is made and the actual event takes place makes other than short-run predictions unreliable and often useless.

Even accurate short-run forecasts are difficult to make. Economists have done a considerable amount of work, for example, on developing methods of predicting the level and changes in direction of the Federal Reserve Board's industrial production index.¹ This index is accepted by many as an accurate index of general economic conditions. Although fairly advanced statistical methods have been used in making short-run predictions of the index, only limited success has been obtained. Attempts to predict the level of the index have succeeded; efforts to forecast

¹G. H. Moore, *Statistical Indicators of Cyclical Revivals and Recessions*, National Bureau of Economic Research Inc., Occasional Paper No. 31, 1950; J. E. Maher, "Forecasting Industrial Production," *Journal of Political Economy*, Vol. LXVII, 1957; S. S. Alexander, "Rate of Change Approaches to Forecasting Diffusion Indexes and First Differences," *Economic Journal*, Vol. LXVIII, 1958; S. S. Alexander and H. O. Steckler, "Forecasting Industrial Production—Leading Series Versus Autoregression," *Journal of Political Economy*, Vol. LXVII, 1959.

changes in the direction (considered most important by most forecasters) have resulted in a large number of false predictions.

Owing to these and other limitations of economic forecasting, the value of long-run forecasts (more than a year) as guides to investment decisions is doubtful. Businessmen may be interested in short-run forecasts but the peculiarities of each market and the different considerations involved in each investment decision raised a question concerning the usefulness of even these predictions.

The value of accurate forecasting for countercyclical policy appears to be potentially great, however. Owing to certain lags in the computation of such indicators as GNP, recessions are usually not detected until they are well underway. To be sure, once a recession has begun the most appropriate methods of combating it are best determined through economic analysis. If fluctuations in general business activity could be forecast with accuracy, however, the possibilities for early and effective countercyclical policies would be greatly enhanced.

It may be concluded that while economic forecasting provides a useful tool within limits, Mr. Dudick's analysis is inadequate and founded upon only a part of the relevant information. ■



A Dudick Supporter

To the Editor:

This letter is being addressed to you in response to Mr. Thomas S. Dudick's letter of February 23. In that letter he requests that we comment on his article "Are We on the Threshold of Another Depression?" and Professor E. H. Weinwurm's reply.

We are in general accord with views expressed in Mr. Dudick's article and agree that it is foolhardy to assume that the so-called economic stabilizers certainly will prevent another severe recession. You will find support for this view in two recent articles of ours, one appearing in our *Investment Bulletin* for January 2, 1961, and the other in our *Research Reports* for January 9, 1961. Copies of these bulletins are enclosed.

Although we believe Professor Weinwurm places too much reliance on the efficacy of the "stabilizers" and fails to recognize fully the importance of basic maladjustments in the economy, particularly those resulting from inflation, we believe that he correctly calls attention to the importance of recognizing the presence of new or different influences in each succeeding recession.

Sincerely,

AMERICAN INSTITUTE FOR
ECONOMIC RESEARCH

E. C. Harwood
Director

We note that Mr. Harwood uses the word "recession" rather than "depression." Any significance?

The Editor

THE PRESIDENT'S MESSAGE

In my report to you in the March issue I mentioned that Vice President Don Bacon had completed a survey on the educational activities of our various chapters. The following is a report on that survey.

Arthur D. Moor
President

EDUCATION SURVEY REPORT

The National Society For Business Budgeting has a number of stated objectives, one of which is as follows

"To disseminate without profit, information, publications and research reports in the field of budgetary planning and control to educational institutions, and such other institutions and organizations consistent with the purpose of the society."

The various chapters have gone about the fulfillment of this objective in numerous ways many of which have been very successful. Late last year it seemed desirable to bring together as much information as possible regarding the various education projects within the chapters and make this information available to all our chapters. It was in this spirit that the Education Survey was undertaken.

Each Chapter President was asked to fill out a detailed questionnaire covering special education activities within his chapter and he was encouraged to provide a detailed report which would be published. Also a special questionnaire was sent to NSBB members who are known to be in the education field. The response to these survey questionnaires was excellent and it was possible to provide a great deal of information to all the chapters on special education projects as they are being handled in other chapters. This summarizing report was made available to all Chapter Presidents shortly after the first of the year.

Now, three months later, it is extremely gratifying to find that at least a dozen chapters are working with colleges and universities to supply guest lecturers for budget courses, inviting students to attend regular chapter meetings and developing other constructive relationships with the leading educational institutions in the chap-

ter community. Many of today's top students in accounting and business administration will become tomorrows Budget Executives, and it is advantageous to acquaint them now with the fascinating facets and challenges of profit planning and budget work.

There is a need for central guidance, and to provide a clearing house for new ideas and accomplishments as they become known. Therefore an Education Committee is being formed with Ken Bennett, President of the Milwaukee Chapter, as chairman of this committee. Ken's experience and background in this area now becomes available to other chapters.

Several things are in effect or being planned which will implement Chapter Cooperation with colleges and universities. A subscription to BUSINESS BUDGETING has been made available without cost to each school library in order to provide supplementary reading for students, draft copies of our NSBB sponsored textbook "Managerial Budgeting" are being made available for testing in ten schools this coming fall, plans are being developed to make BUSINESS BUDGETING available to students at a nominal rate, and other ideas and projects will be made known as fast as they are developed.

This is a fertile field for Chapter contribution to the business community and presents a splendid opportunity for our members who are guiding the profit planning and budget functions of their companies to exchange ideas with well known educators in the field of business administration and finance. We should make the most of it.

Donald E. Bacon

*R. R. Donnelley & Sons Co.
350 East 22nd Street
Chicago 16, Illinois*

FUNCTIONS AND ORGANIZATION OF THE BUDGET DIRECTOR'S JOB

This outline is the summarized result of a panel discussion conducted by members John Proeschel, Marshall Robinson and Everett Yount at a recent Los Angeles Chapter meeting.

The nature of the business or industry will determine the specific application or requirement in the following outline.

I. BASIC TERMS & CONCEPTS

A. PLAN

A detailed outline of the intended activities of a business. The plan will represent the best combination of alternatives and utilization of resources as determined by management. The detailed budget will support the plan with regard to co-ordination and possibilities of accomplishments.

B. FORECAST

An estimate, prediction or projection of future events used in particular in connection with (1) the prediction of future sales and (2) in connection with long-range planning.

C. BUDGET

A comprehensive plan of operations, expressed in financial terms, for a specific period of time — usually not in excess of one year.

D. BUDGETARY CONTROL

Budgetary Control includes all activities designed to assure compliance with the budget.

II. PURPOSES OF BUDGETING

A. FORMALIZING COMPANY OBJECTIVES

B. RELATING PLANS TO GENERAL ECONOMIC CONDITIONS

C. COORDINATE PLANNING

D. PROFIT PLANNING

E. CONTROL TOOL

III. TYPES OF BUDGETS

A. OPERATIONAL OR ACCOUNT BUDGET

1. Sales and other income
2. Costs of production
3. Expenses

B. SPECIALIZED BUDGETS

1. Fixed capital or facilities
2. Research
3. Manpower controls
4. Inventory
5. Cash flow
6. Advertising
7. Contributions

C. LONG-RANGE PLANNING

1. Sales
2. Capital expansion
3. Product expansion
4. Research and development
5. Finance
6. Personnel

IV. BUDGET PROCEDURES

A. BUDGET MANUAL

1. Detail instructions
2. Forms and schedules

B. PLANNING AND SCHEDULES

C. COORDINATION OF DEPARTMENT AND/OR DIVISIONAL BUDGETING

D. REPORTING AND PRESENTATION OF BUDGET

E. GETTING MANAGEMENT ACTION

V. FUNCTIONS OF THE BUDGET DEPARTMENT

A. PREPARE, ADMINISTER AND COORDINATE DIVISIONAL AND/OR DEPARTMENT PLANNING

B. ANALYSIS OF BUDGETS FOR MANAGEMENT

1. Interpretation in light of general business conditions
2. Detection of past and possible operational difficulties and obtaining recommendations for dealing with them

C. OTHERS

VI. ORGANIZATIONAL ASPECTS

A. PLACE OF THE BUDGET DEPARTMENT — DEPENDS UPON ORGANIZATION STRUCTURE OF THE FUNCTION/STAFF OR DIRECT

1. At corporate level
2. At other levels

B. INTERNAL ORGANIZATION OF BUDGET DIRECTOR'S STAFF, INDIVIDUAL FUNCTIONS AND RESPONSIBILITIES

VII. ROLE OF THE BUDGET DIRECTOR

A. FUNCTIONS IN RELATION TO TOP MANAGEMENT

1. It is necessarily a top level staff position
2. The success of the budget program is directly proportionate to the stature of the budget function

B. FUNCTIONS IN RELATION TO DIVISION OFFICERS AND DEPARTMENT HEADS

C. COLLECTOR, DISSEMINATOR AND INTERPRETER OF INFORMATION

1. General economic conditions
2. Product, market or competitive conditions

D. SPECIAL ASSIGNMENTS

E. THE BUDGET DIRECTOR AND HIS FUTURE



NEW MEMBERS

ATLANTA CHAPTER

BEN B. FREDERICK — *Accountant*
Big Apple Super Markets, Inc., Atlanta, Ga.
JOSEPH M. ERQUITT — *Controller*
Sockwell Co., Atlanta, Ga.
R. PAUL DAVIS — *Operations Analyst*
Colonial Stores, Inc., Atlanta, Ga.

BALTIMORE CHAPTER

DANIEL D. KAYNE — *Comptroller*
Sagner, Inc., Frederick, Md.

BOSTON CHAPTER

FRANCIS A. SANDMAN — *Supervisor-Performance Reports*
Wyman-Gordon Co., Worcester, Mass.

CINCINNATI CHAPTER

MILTON L. VAN SCHOIK — *Supervisor of General Accounting*
The Cincinnati Gas & Electric Co., Cincinnati 2, Ohio

CLEVELAND CHAPTER

JOHN J. ISELY — *Sr. General Accountant*
Clevite Corp., Garfield Heights, Ohio

COLUMBUS CHAPTER

FOSTER F. CORFMAN — *Treasurer*
Huber-Warco Co., Marion, Ohio

DAYTON CHAPTER

EDWARD F. JONES — *Chief Accountant*
Egry Register Co., Dayton, Ohio

HOUSTON CHAPTER

BERNARD S. HRUZEK — *Supervisor*
Peat, Marwick, Mitchell & Co., Houston, Texas

KANSAS CITY CHAPTER

ROBERT B. SPERRY — *Treasurer-Controller*
Pitman Mfg. Co., Prairie Village, Kansas
JOHN W. GOETZE — *Fiscal Forecaster*
Chemogro Corp., Prairie Village, Kansas
VICTOR W. YOUNG — *Vice President-Secretary*
Haver Lockhart Laboratories, Kansas City, Mo.

LOS ANGELES CHAPTER

GLEN T. SIMPSON — *Manager-Profit Planning Dept.*
Pacific Finance Corp., Los Angeles, Calif.
GEORGE H. BALCER — *Budget Analyst*
Mattel, Inc., Hawthorne, Calif.
NORMAN H. GREEN — *CPA*
Lynwood, Calif.

LOUISVILLE CHAPTER

ROBERT D. MONTGOMERY
General Electric Co., Owensboro, Ky.

MILWAUKEE CHAPTER

ROBERT G. CHASE — *Industrial Engineer*
West Bend Aluminum Co., West Bend, Wisconsin

PHILADELPHIA-DELAWARE VALLEY CHAPTER

HARRY R. TULLY, JR. — *General Manager of Accounting*
Avisun Corp., Philadelphia, Pa.
FRANCIS L. WOLF — *Controller*
Bankers Securities Corp. Hotel Div., Philadelphia, Pa.
G. F. TEPAS — *Manager—Costs & Budgets*
The Budd Co., Philadelphia, Pa.
RICHARD F. EBERHART — *Controller*
Fischer & Porter Co., Warminster, Pa.
ROBERT L. BARRETT — *Assistant to Manager*
The United Gas Improvement Co., Philadelphia, Pa.

ROCKY MOUNTAIN CHAPTER

C. W. LARSON — *Manager Budgets & Estimating*
Stanley Aviation Corp., Aurora, Colo.

ST. LOUIS CHAPTER

DONALD G. HAWTHORNE — *Accountant*
Lambert-Hudnut Manufacturing Laboratories, Inc., St. Louis, Mo.
CABRIEL BRINKER — *Treasurer*
Fred Campbell Auto Supply Co., St. Louis, Mo.
ALVIN B. WULF, JR. — *Plant Accountant*
Keasbey & Mattison Co., St. Louis, Mo.

SAN DIEGO CHAPTER

GEORGE W. SZULC — *Budget Analyst*
Ryan Aeronautical Co., San Diego, Calif.
DANIEL I. FELLERS — *Acting Supervisor*
Convair-Astronautics, La Mesa, Calif.

SAN FRANCISCO CHAPTER

LOREN M. FURTADO — *Budget Officer*
University of California, Berkeley, Calif.

SAN FRANCISCO-PENINSULA CHAPTER

K. E. JANKOWSKI — *Treasurer*
Tri-Valley Packing Assn., San Francisco, Calif.
RAUL B. FERNANDEZ — *Manager Corporate Accounting and Profit Planning*
Ampex Corp., Redwood City, Calif.
WM. R. LAWSON — *Assistant Treasurer*
Pacific Press Publishing Assn., Mountain View, Calif.
HENRY J. TONINI, JR. — *Director of Accounting*
Dole Corp., San Jose, Calif.
WILLIAM D. LAW — *Controller*
Mark Thomas & Co., Inc., San Jose, Calif.
PHILIP N. CARTER — *Manager Division Overhead Budgeting*
Lockheed Aircraft Corp., Sunnyvale, Calif.

TOLEDO CHAPTER

T. DALE BRIGODE — *Supr-Management Services Dept.*
Konopak & Dalton, Toledo, Ohio

TWIN CITIES CHAPTER

RAYNOR G. GRANDE — *Marketing Cost & Budget Manager*
Green Giant Co., LeSueur, Minn.
GEORGE J. BECKER — *Agriculture Cost and Budget Manager*
Green Giant Co., LeSueur, Minn.
VERNON H. WOLFF — *Property Cost and Budget Manager*
Green Giant Co., LeSueur, Minn.

Welcome . . .

Don Bacon presents the charter to E. M. Cajacob, President. At the far left is Mr. George F. Sennentz, Secretary-Treasurer and at the far right is Mr. Carl C. Stupp, Vice President.

NEW



OMAHA

On January 23 Vice President Don Bacon presented the charter to the Omaha, Nebraska Chapter of NSBB. The following are charter members of the new Omaha Chapter:

Claude A. Bastow	The Cudahy Packing Co.
E. M. Cajacob	Fairmont Foods Co.
F. E. Deatsman	Fairmont Foods Co.
Henry Erdmann	Ocoma Foods Co.
James W. Goodrich	Nebraska Consolidated Mills, Inc.
Everett E. Graff	Nebraska Methodist Hospital
Wallace Hedlund	Sidles Co.
Melvin L. Jespersen	Tidy House Products Div. Pillsbury Co.
Earl A. Johnson	Vickers, Inc.
Ronald K. Leiferman	Leo A. Daly Co.
Norman Lund	Paxton-Mitchell Co.
Leighton D. Miller	Northwestern Bell Telephone Co.
George F. Sennentz	Continental Can Co., Inc.
Carl C. Stupp	Vickers, Inc.—Omaha Plant

The officers of the new chapter are:

President..... E. M. Cajacob

Vice President..... Carl Stupp

Secretary-Treasurer..... George F. Sennentz



Members of the Omaha Chapter, reading from left to right they are Messrs. Jespersen, Johnson, Leiferman, Deatsman, Sennentz, Goodrich, Cajacob, Erdmann, Stupp, Bastow, Miller and Hedlund.

CHAPTERS

NEW ORLEANS

The Charter for the New Orleans, Louisiana Chapter of NSBB was presented on March 28 by National President Art Moor. The officers of the new chapter are as follows:

President.....Elvin S. Cobb
Vice President.....Charles J. Grayson, Jr.
Secretary.....Clarence H. Ramond
Treasurer.....Ted Tumminello

Charter Members are:

Charles M. Carriere, Wesson Oil & Snowdrift Co.
Elvin S. Cobb, Board of Port Commissioners
Harvey W. Decker, Ernst & Ernst
Edward M. Gray, Esso Standard
Charles J. Grayson, Tulane University
Arthur C. Holland, New Orleans Public Service, Inc.
Harold E. Martinez, Haspel Bros., Inc.
Eugene F. Monnier, John F. Hartmann & Co.
Clarence H. Ramond, Lengsfeld Bros., Inc.
Ted Tumminello, Wesson Oil & Snowdrift Co., Inc.
A. M. Wolff, Wembley, Inc.



President Art Moor presents the charter to New Orleans Chapter President Elvin S. Cobb.

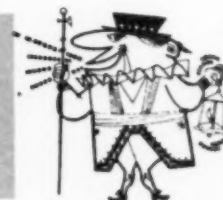
NEWS About Members

MORLEY P. THOMPSON of the Cincinnati Chapter was promoted to Treasurer of the Baldwin Piano Co. . . .

WILLIAM C. ANDERSON was recently advanced to Manager of Expense Accounting at Hughes Aircraft Company. Bill is a member of the Los Angeles Chapter . . . DUANE R. BORST, formerly Assistant Controller of Joseph T. Ryerson & Sons, Inc. has recently been named Controller and Treasurer of Inland Container Cor-

poration. Dewey is a very active member of the Chicago Chapter and Chairman of the Textbook Committee . . . Another Chicago Chapter member, GEORGE W. YENERICH has accepted the position of Director of Development, North Central College, Naperville, Illinois. He had formerly been with the Hot Point Company, Division of General Electric Company . . . JOHN W. GALVIN, President of the Peoria Chapter has been promoted to Assistant Director of Financial Planning of the State Farm Life Insurance Company.

Three members of the Philadelphia-Delaware Valley Chapter have recently been promoted. RALPH B. BARTLETT of Triangle Publications was appointed Business Manager of SEVENTEEN magazine . . . CHARLES L. HASSEMAN was promoted to Director of Public Relations of Fischer & Porter Co. . . . G. RALPH GUTHRIE was promoted to Controller, Financial Planning of I-T-E Circuit Breakers . . . GEORGE W. JACKSON, Past President of the Philadelphia-



Delaware Valley Chapter and Director of Region I, will be discussion leader of the American Management Association workshop seminar, "Functions and Organization of the Budget Directors Job", to be held in New York City on May 10-12. George will also give the Commencement Address at the graduation exercises of the Wanamaker Institute of Industries and BOK Adult Evening School.

On April 13 the Milwaukee Chapter will hold its annual meeting in Madison, Wisconsin, with the Business School Faculty members of the University of Wisconsin. Members of Beta Alpha Psi will attend as guests.

The Cincinnati Chapter has been invited to participate in the Small Business Conference sponsored by Xavier University and the Small Business Administration. DICK SHAW, LARRY HAVERKAMP, FRED KIEFFER, BRUCE MAYHALL and GENE MIDDLEKAMP will present a panel discussion on the subject of "Profit Planning."

CHICAGO AND TRI-CITIES CHAPTERS HOLD SEMINARS

CHICAGO CHAPTER

The Annual Spring Seminar of the Chicago Chapter was held at the St. Clair Hotel on Tuesday, April 18. The morning session included the following speakers:

- WALTER R. BUNGE — The Art of Budgeting
- DONALD L. CARTLAND — Gaining Acceptance for the Budget
- CHARLES S. HOLSTEEN — Evaluation of Proposed Capital Expenditures

Discussion leaders at the afternoon workshop seminars were as follows:

- ROBERT W. KOZEL — An Analysis of the Job of Budget Manager
- LEROY O. KAMIN — Installing a Budget
- JACK A. STRICKLAND — Budgeting Expenses
- CARL O. WESSMAN — Budget Reporting to Management
- LEWIS B. LANDRETH—Budgeting vs Profit Planning
- ERNEST H. WEINWURM—Operations Research Techniques in Budgeting

Registration was limited to 100.

TRI-CITIES CHAPTER

On April 15 the Tri-Cities Chapter sponsored a seminar entitled the Spring Seminar on Profit Planning. Designed to appeal principally to non-members, the seminar attracted 60 participants including 15 local members. Three groups met concurrently in workshop type meetings to discuss the following topics:

- Profit Planning Through Budgeting
- The Manufacturing Budget — A Tool of Profit Planning
- Budget Follow-Up — The Control Aspect of Profit Planning

The dinner speaker was Preston Heller, Jr. of the Skokie Valley Chapter. Discussion leaders and committee chairmen were as follows:

- HENRY C. DOOFE — Discussion Leader
- GERALD N. SAUR — Discussion Leader
- HARLEY E. SHEPHERD — Discussion Leader
- JOSEPH SCHLOEMER — Discussion Leader
- L. W. DISNEY — Discussion Leader
- GEORGE F. RAU — Discussion Leader
- HAROLD ALTERMATT — Arrangements
- JOHN ROSENBERGER — Registration
- NEIL F. DENEN — General Chairman

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